

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-03 INR-07 L-02 ACDA-10

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TO SECSTATE WASHDC 246

INFO SECDEF WASHDC

CCNO

NAVFACENCOM ALEXANDRIA VA

UNCLAS USNATO 0975

E.O. 11652: N/A

TAGS: MARR NATO

SUBJECT: USE OF PRICE VARIATION CLAUSES IN INFRASTRUCTURE CONTRACTS

SUMMARY. INFRASTRUCTURE PAYMENTS AND PROGRESS COMMITTEE HAS DECIDED TO INVESTIGATE USE OF PRICE VARIATION CLAUSES IN INFRASTRUCTURE CONTRACTS. ACTION REQUESTED: ADVISE BY 17 MARCH AS TO US POLICY AND REGULATIONS IN THIS AREA. END SUMMARY.

1. IN EFFORT TO HANDLE EFFECTS OF RECENT SHARP INCREASES IN INFLATION RATES, HOST NATIONS FOR NATO INFRASTRUCTURE PROJECTS HAVE BEGUN TO INCLUDE PRICE VARIATION CLAUSES IN THEIR CONTRACTS. AS A RESULT, INFRASTRUCTURE PAYMENTS AND PROGRESS COMMITTEE HAS BEEN RECEIVING AN INCREASING NUMBER OF REQUESTS FOR COST OVERRUNS CAUSED BY CONTRACTOR CLAIMS UNDER THESE CLAUSES.

2. P&P COMMITTEE HAS BECOME CONCERNED OVER PROBLEM CREATED BY THIS DEPARTURE FROM PREVIOUSLY USED FIXED-PRICE CONTRACT APPROACH, SINCE IT TENDS TO INCREASE RISK OF OVER-AUTHORIZATION AGAINST FIXED INFRASTRUCTURE PROGRAM CEILINGS.

3. COMMITTEE HAS ACCORDINGLY DECIDED TO EXAMINE THIS AREA MORE CLOSELY,

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AND HAS FORMED SPECIAL AD HOC WORKING GROUP TO REVIEW NATIONAL PROCEDURES OF MEMBER NATIONS AND FORMULATE RECOMMENDATIONS ON A PROCEDURE FOR DEALING WITH THIS MATTER WITHIN P&P COMMITTEE.

4. AT ITS MEETING ON 20 FEB 75, THE P&P COMMITTEE INVITED ALL MEMBER NATIONS TO SUBMIT WITHIN FOUR WEEKS TIME (I. E. BY 20 MARCH 1975):

A) COPIES OF PERTINENT MILITARY PROCUREMENT REGULATIONS DEALING WITH PRICE ESCALATION OR PRICE VARIATION CLAUSES IN CONTRACTS TO COVER

CONTRACTOR COSTS RESULTING FROM INFLATION IN LABOR AND MATERIAL COSTS,

TO INCLUDE PRESCRIBED OR RECOMMENDED TEXTS OF SUCH CLAUSES IF USED.

B) A SUMMARY STATEMENT OF NATIONAL POLICY IN THE AREA OF MILITARY PROCUREMENT FOR DEALING WITH THIS PROBLEM, I.E. AN INDICATION OF NATIONAL PREFERENCE IF ANY IN USING THESE CLAUSES, OR OTHER GUIDANCE TO CONTRACTING OFFICERS IN THIS AREA.

5. REQUEST COPIES OF RELEVANT ARMED SERVICES PROCUREMENT REGULATIONS COVERING THIS SUBJECT, TOGETHER WITH ANY COMMENTS WHICH MISSION MAY PROVIDE TO WORKING GROUP ON THIS PROBLEM. COMMENTS SHOULD ADDRESS BOTH US POLICY WITH RESPECT TO MILITARY PROCUEREMENT FOR US USE AND POLICY GOVERNING US CONTRATCTING IN INFRASTRUCTURE PROGRAM WHEN US ACTS

AS HOST NATION ON BEHALF OF NATO. MISSION WOULD APPRECIATE RECEIVING THIS INFORMATION NO LATER THAN 17 MARCH 1975.
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